

## 2001 Country Reports on Economic Policy and Trade Practices

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### ARGENTINA

#### Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001	1/
<i>Income, Production, and Employment:</i>				
GDP (at Current Prices) 2/	283	285	276	
Real GDP Growth (pct)	-3.0	-0.5	-2.0	
GDP by Sector (pct):				
Agriculture, Forestry, Fishing	4.6	4.8	5.0	
Industry:	27.6	27.6	24.3	
Manufacturing 3/	18.1	17.6	17.1	
Services:	67.7	67.7	68.0	
Government 3/	10.7	11.0	10.9	
Per Capita GDP (US\$)	7,750	7,700	7,400	
Labor Force (Millions)	14.2	14.4	14.7	
Unemployment Rate (pct) (May)	14.5	15.4	16.4	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M2) (Dec.)	-1.4	-3.9	-12.0	
Consumer Price Inflation (Dec./Dec.)	-1.8	-0.7	-1.5	
Exchange Rate (Peso/US\$) 2/	1.0	1.0	1.0	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	23.3	26.4	27.4	
Exports to United States 4/	2.6	3.1	3.1	
Total Imports CIF	25.5	25.2	22.7	
Imports from United States 4/	4.9	4.7	4.5	
Trade Balance	-2.2	1.2	4.7	
Balance with United States 4/	-2.3	-1.6	-1.4	
External Public Debt	84.8	84.6	84.0	
Fiscal Deficit, GDP (pct)				
Federal Government	-2.5	-2.4	-2.7	
Consolidated Public Sector	-4.2	-3.6	-3.7	
Current Account Deficit/GDP (pct)	-4.2	-3.1	-2.5	
Debt Service Payments/GDP (pct) /5	3.6	4.3	5.0	
Gold and Foreign Exchange Reserves	26.4	25.1	15.0	
Aid from United States	N/A	N/A	N/A	
Aid from All Other Sources	N/A	N/A	N/A	

- 1/ Figures for year 2001 are Embassy estimates based on January through August data.
- 2/ The Argentine peso was tied to the U.S. dollar at the rate of one to one in 1991.
- 3/ Manufacturing and Government figures show percentage of total GDP.
- 4/ Source: U.S. Department of Commerce; Calendar Year 2001 figures are estimates based on data available through July.
- 5/ External public debt service payments.

### *1. General Policy Framework*

Following years of high inflation and exchange rate instability, beginning in 1990 Argentina undertook a series of reforms, which stabilized the economy through the 1990s. The peso was linked to the dollar under a currency board arrangement, many barriers to trade and investment were dismantled, and by the mid-1990s, most state-owned entities were privatized. Despite a sharp recession in 1995, real GDP growth averaged over six percent a year from 1991-1997. However, the Mexican peso crisis, the Asian and Russian financial crises, the continuing depreciation of the Brazilian currency, as well as a lack of government fiscal restraint resulted in a recession in 1998 that continues through today. The economy is estimated to shrink two percent in 2001.

President Fernando de la Rúa, who took office in December 1999, has maintained the principle elements of the country's economic policy, including the convertibility of the peso and the dollar, as well as relatively open markets for trade. Recent changes in currency, tax, and trade regulations have created uncertainty in the trade and investment community about doing business in Argentina. However, in the long term, Argentina retains promise as a market for well-informed U.S. business people.

Argentina's financial sector is considered sound and foreign capital flows freely. However, Argentina's fiscal situation remains a concern. A zero deficit law, which cut government employees' salaries and limits government spending to its income on a monthly basis, was instituted in July of 2001. Tax evasion, however, remains a major problem. In January 2001, Argentina concluded a new \$40 billion bailout package with the International Monetary Fund (IMF) that briefly increased lender and investor confidence. In June 2001, it consolidated a large part of its debt in an exchange of bonds, which also increased investor confidence briefly. In August, it obtained an additional five billion dollars in an expanded IMF credit.

### *2. Exchange Rate Policy*

Under the Convertibility Law of 1991, the exchange rate of the Argentine peso is fixed to the dollar at the rate of one to one, under a currency board type of arrangement called "convertibility." This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls.

### *3. Structural Policies*

Argentina's economic reforms in the last decade have achieved significant progress in transforming Argentina from a closed, highly-regulated economy to one based on market forces and international trade. The government's role in the economy has diminished markedly with the privatization of most state firms. Argentine authorities also eliminated price controls on almost all goods and services. The government abolished the import licensing system in 1989 and drastically cut the average import tariff. Argentina's average applied tariff currently is around 13.5 percent.

Argentina, Brazil, Paraguay, and Uruguay established the Southern Cone Common Market (Mercosur) in 1991, and in 1995 formed a partial customs union with a Common External Tariff (CET) covering approximately 85 percent of trade. The CET ranges from zero to 20 percent. However, the tariff on capital goods, which account for over 40 percent of U.S. exports to Argentina was reduced to zero in 2001. Argentina, as a member of Mercosur, is discussing the prospect of a free trade agreement with the Andean community and the European Union (EU). It is also engaged in negotiations to establish the Free Trade Area of the Americas (FTAA), and in Mercosur-U.S. negotiations known as the Four Plus One process.

Argentina signed the Uruguay Round agreements in April 1994. Its congress ratified the agreements at the end of 1994, and Argentina became a founding member of the World Trade Organization (WTO) on January 1, 1995.

### *4. Debt Management Policies*

Argentina's public debt maturities are mostly concentrated in the medium to long term. Public sector debt increased in 2000, rising to almost \$130 billion. Public sector debt service payments on external debt in 2001 will represent about five percent of GDP. The turmoil in international financial markets in recent years complicated Argentine access to foreign capital; however, through additional financing from the IMF and the large debt exchange of June 2001, the government seems to have met its external financing requirements through 2001. Despite this, Argentina growth and tax collections remain stagnant, and the country remains vulnerable to external shocks.

### *5. Significant Barriers to U.S. Exports*

Argentina and Brazil protect their respective automobile assembly industries through a combination of quotas and high tariffs negotiated among Mercosur members. The government has negotiated a new common Mercosur auto policy with Brazil and other Mercosur members that extends quotas and tariffs through 2005.

Although Argentina is one of the most open markets in Latin America, domestic political pressure, the impact of the continuing devaluation of Brazil's real, and continued high

unemployment in Argentina have led the government to take some ad hoc protectionist measures.

**Standards:** Argentina has traditionally recognized both U.S. and European standards. However, as the government and its Mercosur partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products and electronics. In 1999, Argentina instituted new rules under which imported electronics would have to carry a local safety certification. Under the WTO agreement on technical barriers to trade, Argentina established an “inquiry point” to address standards-related inquiries. While this inquiry point exists formally, it is not fully functional.

**Services Barriers:** In 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

**Investment Barriers:** Foreign investment receives national treatment under Argentine law. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in firms whose shares trade on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

The United States-Argentina Bilateral Investment Treaty (BIT) came into force in 1994. Under the treaty, U.S. investors enjoy national treatment in all sectors except shipbuilding, fishing, and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the International Center for the Settlement of Investment Disputes (ICSID) or any other arbitration institution mutually agreed by the parties. Several U.S. firms have invoked the treaty’s provisions in on-going disputes with Argentine national or provincial authorities.

**Government Procurement Practices:** Argentina is not a signatory to the WTO Government Procurement Agreement. The de la Rúa administration has re-established a “Buy Argentine” preference that allows Argentine companies to lower their bids as much as five percent to match foreign companies’ bid offers. Argentine sources receive preference only when all other factors (price, quality, etc.) are equal.

**Customs Procedures:** Customs procedures are opaque and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter under-invoicing and dumping. In 1997, the government merged the customs and tax collection authorities to boost revenues and improve efficiency. In September 2001, it abolished a troublesome pre-shipment inspection system that verified the price, quality and quantity of imports.

## *6. Exports Subsidies Policies*

As a WTO member, Argentina adheres to WTO subsidies' obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also established a "convergence factor" exchange-rate differential for imports and exports in 2001. Under this system, exporting companies receive an advantageous exchange rate for foreign currency received for exported products. The exchange rate for exports, which is adjusted daily, sets the value of one peso at the equivalent of 50 U.S. cents plus one half the value of the EU's currency, the euro.

### *7. Protection of U.S. Intellectual Property*

Argentina belongs to the WTO and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. The U.S. Trade Representative has placed Argentina on the "Special 301" Priority Watch List. Argentina's lack of patent protection for pharmaceutical products has consistently been a contentious bilateral issue and in 1997 the United States withdrew 50 percent of Argentina's benefits under the U.S. Generalized System of Preferences (GSP).

**Patents:** After a three-year conflict between the Argentine Executive and Congress over the issue of patent protection for pharmaceutical products, the Executive issued a decree in 1996 that improves earlier Argentine patent legislation, but provides less protection than that called for in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Starting in November 2000, this decree authorized the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection. As a result, more than 100 pharmaceutical patents have been issued. However, the new patent regime does not provide patent protection for products under development, does not adequately protect confidential data, and contains ambiguous language on parallel imports and compulsory licenses. As a result of these shortcomings, the U.S. government has been in WTO dispute settlement consultations with Argentina for more than one year.

**Copyrights:** Argentina's Copyright Law, enacted in 1933, appears to be adequate by international standards. An executive decree extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. Regardless, video and CD piracy remains a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In 1998, the Argentine Congress enacted legislation making software piracy a criminal offense. However, the Argentine government has yet to comply fully with an agreement to legalize unlicensed software in use in government offices.

**Trademarks:** Trademark laws and regulations in Argentina are generally TRIPS-consistent. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secrets law as such, laws on contract, labor, and property have recognized and encompassed the concept. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. Although existing legislation on patents or copyrights could be interpreted to cover this technology, this has not been verified in practice. Argentina has signed the WIPO treaty on integrated circuits.

## *8. Worker Rights*

a. *The Right of Association:* All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30 to 40 percent of the workforce. Unions are independent of the government and political parties, although most union leaders have ties with the Justicialist (Peronist) Party. Unions have the right to strike, and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively:* Argentine law prohibits antiunion practices. The passage of a major labor reform law in May 2000 promotes bargaining on a local, provincial or company level, rather than negotiating at the national level on a sectoral basis. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and there were no reports of such incidents during 2000.

d. *Minimum Age for Employment of Children:* The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than 6 hours a day or 35 hours a week. The law is generally enforced, but there are credible reports that child labor in the informal economy is increasing.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is \$200, although prevailing wages for most unskilled and entry-level positions are somewhat higher. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and the workweek is limited to 48 hours. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. *Rights in Sectors with U.S. Investment:* Argentine law does not distinguish between worker rights in nationally owned enterprises and those in sectors with U.S. investment. The

rights enjoyed by Argentine employees of U.S. owned firms in Argentina generally equal or surpass Argentine legal requirements.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	654
Total Manufacturing	3,623
Food & Kindred Products	883
Chemicals & Allied Products	1,549
Primary & Fabricated Metals	213
Industrial Machinery and Equipment	47
Electric & Electronic Equipment	-5
Transportation Equipment	151
Other Manufacturing	785
Wholesale Trade	389
Banking	2,319
Finance/Insurance/Real Estate	5,633
Services	698
Other Industries	1,172
<b>TOTAL ALL INDUSTRIES</b>	<b>14,489</b>

Source: U.S. Department of Commerce, Bureau of Economic Analysis.